

NEWFOUNDLAND CAPITAL CORPORATION LIMITED

annual report 1980



Eastern Provincial Airways
Maritime Petroleum
Atlantic Inns

**Newfoundland
Capital
Corporation
Limited**

Directors

**Harold Raymond Steele
Gander, Newfoundland
President & Chief Executive Officer

*Seymour Schulich - Chairman
Toronto, Ontario
Vice President
Beutel Goodman & Company Ltd.

*William Sobey
Stellarton, Nova Scotia
Chairman & Chief Executive Officer
Sobey Stores Limited

John Fleming
Calgary, Alberta
President
Bonanza Petroleum Ltd.

*Ivan J. Kilpatrick
Gander, Newfoundland
Vice President Finance

Officers

Seymour Schulich
Chairman

Harold Raymond Steele
President & Chief Executive Officer

Ivan J. Kilpatrick
Vice President Finance

Ronald W. McCabe
Secretary

**Chairman of the Executive Committee
*Member of the Executive Committee

**Eastern
Provincial
Airways**

Directors

Keith Alfred Miller - Chairman
Montreal, Quebec

Andrew Chesley Crosbie
St. John's, Newfoundland
President
Crosbie Enterprises Limited

William E. Fearn
Toronto, Ontario
Vice President Finance
Shawinigan Consultants International Limited

*J. Claude Hebert
Montreal, Quebec
Consultant

*Ivan J. Kilpatrick
Vice President Finance

**Harold Raymond Steele
President & Chief Executive Officer

Officers

Keith Alfred Miller
Chairman

Harold Raymond Steele
President & Chief Executive Officer

Ivan J. Kilpatrick
Vice President Finance

William L. Verrier
Vice President Marketing

A. Chester Walker
Vice President Operations and Maintenance

Roy P. Rideout
Assistant to the President

Ronald W. McCabe
Secretary

Arthur James Lewington
Gander, Newfoundland
Retired

Richard Henry Oland
Saint John, New Brunswick
Vice President Production
Moosehead Breweries Limited

Alexander J. Roche
St. John's, Newfoundland
Vice President
National Sea Products Limited

*Seymour Schulich
Toronto, Ontario
Vice President
Beutel Goodman & Company Ltd.

William Sobey
Stellarton, Nova Scotia
Chairman & Chief Executive Officer
Sobey Stores Limited

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Auditors
Peat, Marwick, Mitchell & Co.
St. John's, Newfoundland

Bankers
Bank of Montreal
Gander, Newfoundland

Transfer Agent & Registrar
The Royal Trust Company
St. John's, Halifax, Montreal,
Toronto, Winnipeg, Calgary
Vancouver

Listed
The Toronto Stock Exchange
The Montreal Stock Exchange

Newfoundland Capital Corporation Limited
In November 1980 at a Special Meeting, the shareholders approved the change of Eastern Provincial Airways' name to Newfoundland Capital Corporation Limited. Newfoundland Capital Corporation, therefore, is a holding company listed on the Toronto and Montreal Stock Exchanges and presently operating the following three subsidiaries:

Eastern Provincial Airways (1963) Limited

This Company holds the licences and operates the airline. The change of name of the holding company has no effect whatever on the operation of Eastern Provincial Airways. It is Eastern Canada's regional air carrier flying six B737 jet aircraft and three HS748 turbo props.

Atlantic Inns Limited

Operates two hotels—Atlantic Inn, Dartmouth, Nova Scotia; Glynmill Inn, Corner Brook, Newfoundland.

Maritime Petroleum Limited

A joint venture with Trinity Resources Inc. of Houston, Texas which has acquired a participation in oil and gas prospects, in Michigan, Utah and Texas.

Newfoundland Capital Corporation Limited

A Canadian Company Dedicated to the Future of Atlantic Canada

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**Newfoundland
Capital
Corporation
Limited**

Directors



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Gander, Newfoundland
President & Chief Executive Officer



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Toronto, Ontario
Vice President
Beutel Goodman & Company Ltd.



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Chairman & Chief Executive Officer
Sobey Stores Limited



John Fleming
Calgary, Alberta
President
Bonanza Petroleum Ltd.



***Ivan J. Kilpatrick**
Gander, Newfoundland
Vice President Finance

When the shareholders met in special meeting November, 1980, they did more than sanction a change of name.

They also set your Company on a new course for the future.

Newfoundland Capital Corporation, starting with strong operating companies, Eastern Provincial Airways, Atlantic Inns, and Maritime Petroleum is ready to seize the opportunities which are surely on their way in Atlantic Canada.

I believe the Company now has what it takes to expand and diversify profitably.

We are soundly financed. We have an aggressive, mature senior management.

Our first venture, Maritime Petroleum is exciting. Our drilling partners, Trinity Resources Inc., Houston, Texas, have an enviable track record in their field.

When you read Maritime's special report on page 11 you will share my own enthusiasm.

The nature of our diversification is open. We will acquire or joint venture with companies who have proven profit making capability and who need our own capabilities in finance and management.

Although we have not defined specific fields we shall be looking to expand our interests in hotels and to seek opportunities in offshore servicing.

Across Atlantic Canada the wind of confidence is blowing. Newfoundland Capital is setting its sails to get the best from that wind.

H.R.S Steele

H.R. Steele
President and
Chief Executive Officer

The Real Future of Atlantic Canada

Who can fail to have confidence in Atlantic Canada with young people like these? At their Business Education Day these young students at Gander District Vocational School talk things over with Harry Steele. The students are, l to r: Darlene Granter, David King, Morgan Pritchett and David Morgan.



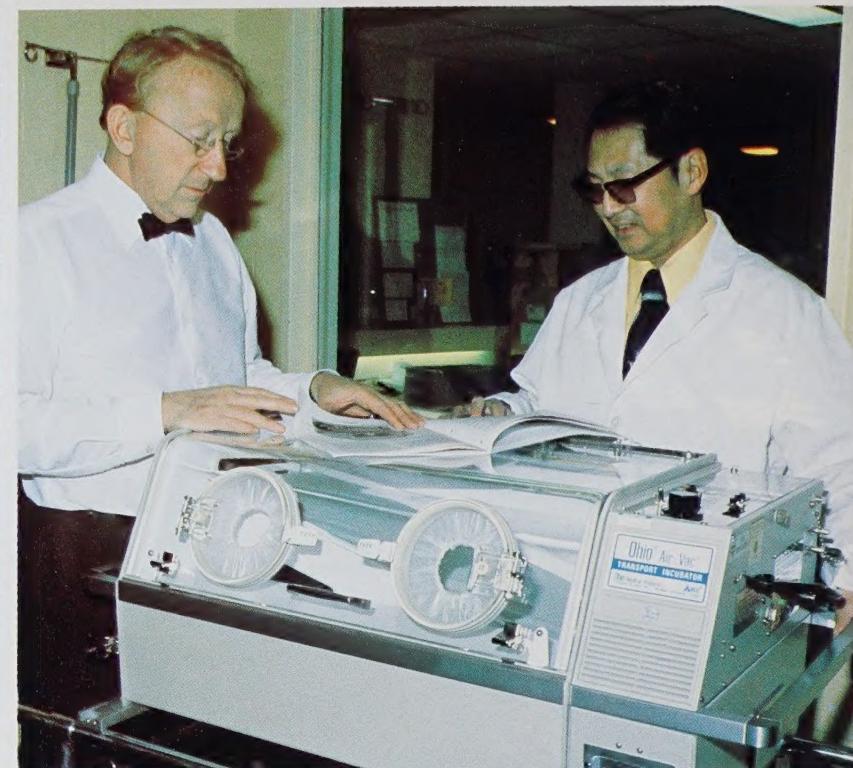
**There's More to
an Airline Than
Flying Airplanes**

We're Part of the Team

To you they're a pair of doctors. To us they represent dedicated medical care in Atlantic Canada, from metropolitan clinic to outpost hospital.

Whether we're taking plasma to Wabush, a stretcher patient to Halifax or a newborn baby in his incubator to St. John's, nothing gives the people of Eastern Provincial more pride than when we're part of the medical team of Atlantic Canada.

Dr. John Price, Medical Superintendent for Churchill Falls Hospital has practiced in Labrador for 14 years. He and his colleague Dr. Tchao are pleased with the hospital's new incubator shown in the foreground.



Who Remembered the Milk?

Nine hundred people stand behind those smiles and it isn't just the seat belts we check. For every flight, someone inspects the airplane and its instruments. Someone makes sure the weight and balance is right, makes sure of the fuel load and receives the weather forecast. Someone looks after the baggage and takes the reservations.

And for Lisa and Jane, let's hope someone remembered the milk! After all, they're Eastern Provincial passengers!

Lisa Andrews and her big sister Jane of St. John's are perfectly at home with flight attendant Debbie Slaunwhite.

In last year's report I said I was not satisfied with the results.

I am still not satisfied but I feel better about our progress.

Profits were \$1,026,000, only slightly better than the \$764,000 of 1979. But the profits of 1980 were different from those of 1979.

They were achieved despite:

... A work stoppage which shut down the airline for 4 days and adversely affected revenue for several days before and after.

... Heavy costs of the public hearing and start-up of the Halifax-Toronto route. None of these costs have been deferred. All were absorbed in 1980.

... Heavier than usual charges to operations to augment reserves for engine overhaul.

So—I repeat, I am not satisfied with our results but I do feel better.

This past year has been significant in many respects.

Here is my list of 1980 highlights.

1. By far the most important highlight of 1980 was the growing sense in our Company, among management as well as members of employee bargaining groups, that in a world of stiff competition and serious inflation, only higher productivity wins. As you will see throughout this report productivity has become a major goal for all of us.

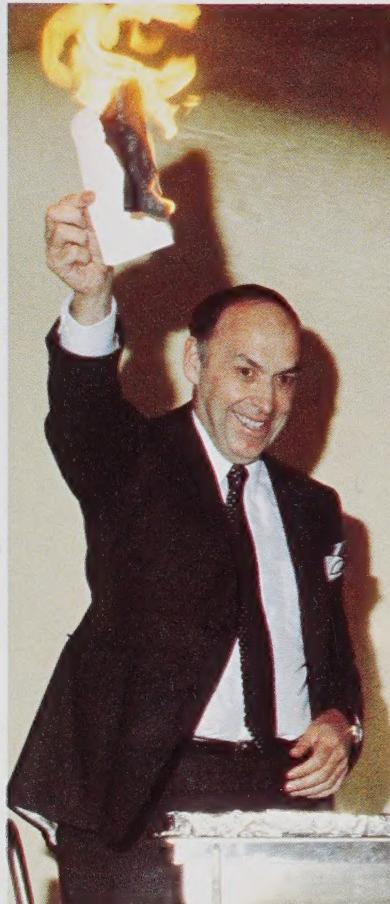
In 1980, our airplanes worked harder. Each gallon of fuel drove them further.

Not least in contributing to higher productivity was the consistent, high level performance of our employees, on the ground, in shops, offices and stations and in the air by cockpit and cabin crews.

So number one on my list for 1980 highlights is the thanks of directors and shareholders to employees.

2. The award of the right to fly Halifax-Toronto is a major watershed for the airline. The route has been flown since July. Loads are building. We expect to increase frequency in 1981.

The Company is grateful to the hundreds of people and organizations who supported us throughout.



A Touch Of Free Enterprise

Harry Steele burns the document representing the Company's last financial obligation to any Government and Eastern Provincial's management team accepts the challenge to operate the airline without Government help. (An episode at the Company's management meetings last fall at the Glynmill Inn, Corner Brook.)

3. The change in our capital structure by the creation of Class "A" and "B" shares and the issue of \$10,000,000 of Class "A" shares, strengthens our capital base, poised us for major diversification and ensures that control of the Company remains in Atlantic Canada.

Even more important, the private issue demonstrates the growing confidence of all Canadians in Atlantic Canada and in your Company's management.

As part of our capital changes, the Debenture Sinking Fund was fully invested to retire this debt at maturity. Thus all our obligations in

respect of the guarantees of the Province of Newfoundland and Labrador were withdrawn. The Company now has no fiscal obligation to any government.

Eastern Provincial remains grateful to the Province of Newfoundland and Labrador for its help when it was sorely needed throughout difficult years.

Our programme to diversify Newfoundland Capital has required structural changes in management. Eastern Provincial will have its own Board of Directors, made up of a broad spectrum of businessmen from the region we serve. It will consist of:

Keith Alfred Miller, Chairman
Andrew Chesley Crosbie
William E. Fearn
J. Claude Hebert
Ivan J. Kilpatrick
Arthur James Lewington
Richard Henry Oland
Alexander J. Roche
Seymour Schulich
William Sobey
Harold Raymond Steele

Newfoundland Capital's Board will be small to achieve flexibility and cohesion and will consist of:

Seymour Schulich, Chairman
John Fleming
Harold Raymond Steele
William Sobey
Ivan J. Kilpatrick

We welcome to the Newfoundland Capital Board, William Sobey, Stelarton, Nova Scotia and John Fleming, Calgary. With their wide experience in Canadian affairs and business we are fortunate to have them join our group of companies.

The senior operating management is getting lean but it is very able. Three Vice Presidents, Operations and Maintenance, Marketing, and Finance, each charged with a major segment of the Company's success, combined as a team to take the major decisions, report to me.

While I, as Chief Executive Officer, naturally take full responsibility for the Annual Report, I have asked each of the Vice Presidents to report upon his field for 1980.

H.R.S. Steele

H.R. Steele, President and Chief Executive Officer

Cash Generation: Key to Success



The issue in the airline business is whether improved productivity can overcome the threat of inflation. It will be easy to spot the winners. They'll be the companies whose productivity is generating cash fast enough to replace the aircraft fleet.

In 1980, Newfoundland Capital made a good beginning in this effort. The operating divisions, principally Eastern Provincial Airways generated \$4,594,000 of cash compared to a restated \$3,070,000 in 1979. As a result of this high rate of cash generation, together with the \$10,000,000 received from the issue of Class "A" shares in December, working capital rose to \$13,737,000. Excluding the funds provided by the private placement, working capital at year end was \$3,737,000; comfortably above the 1979 figure of \$2,057,000.

At Newfoundland Capital Finance is More Than Numbers

On the St. John's waterfront Roy Rideout, Assistant to the President, and Ivan Kilpatrick, Vice President, Finance, talk offshore development with Fred J. Morgan (centre) Vice President, Newfoundland and Labrador, the Bank of Montreal.

The better cash generation came from improved productivity in several fronts which are discussed in detail in the various operating reports. They included:

- Higher daily utilization of airplanes
- Better fuel burn
- Longer stage lengths
- Better crew utilization (both cockpit and cabin)

Passenger load factors fell marginally from 56.7% to 55.5%. This is a temporary condition resulting from the added capacity in seat miles of the Halifax-Toronto route.

Overall passenger boardings increased by 4.5% to 878,000. We consider this acceptable in the light of some of the depressed areas in the region.

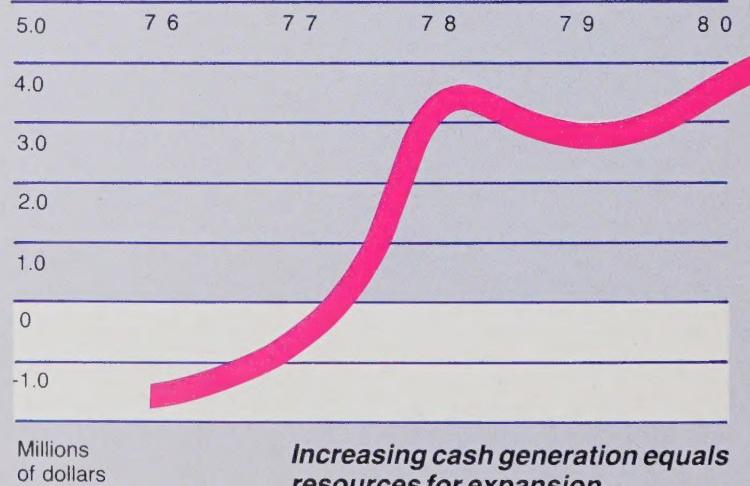
Net Capital Expenditures were \$1,168,000 for the year. Of this amount, \$117,000 was in the hotels, expended for renovations at the Glynmill Inn.

The remainder was in the airline, mainly in airplane components and rotables. Hotel operations were satisfactory. Net income before taxes was \$192,000 up from \$40,000 last year. Occupancy in the hotels was 66%, slightly better than in 1979.

One salutis

I.J. Kilpatrick
Vice President Finance

Cash Generated by Operations



**The
Competitive
Spirit**

The year 1980 was significant for the Marketing Division with the introduction of its Halifax-Toronto service. Not only did this help the airline to achieve its goal of increasing Boeing 737 average stage length, that is, distances between destinations, but it allowed us entry into the busiest passenger and aircargo centre in Canada. Starting this service in July with one flight a day, originating in St. John's, a second flight from Halifax was added in September. Since operating the second flight, and up to the end of the year, we averaged a healthy 57.5% load factor.

With our entry into Toronto greater sales emphasis has been directed to interline business with other carriers. New agreements such as the one with Delta which resulted in joint excursion fares between points in the Atlantic Region and Florida were made with several carriers.

During the year we also applied for a service between St. John's and Boston, a route which is potentially as important to the airline as the Toronto Service. Following a refusal by the Air Transport Committee of the Canadian Transport Commission to grant us a licence for the route, we initiated steps with the Minister of Transport and Air Canada to take over their licence to operate between Sydney and Boston. We expect to reach agreement on this service by summer, 1981.

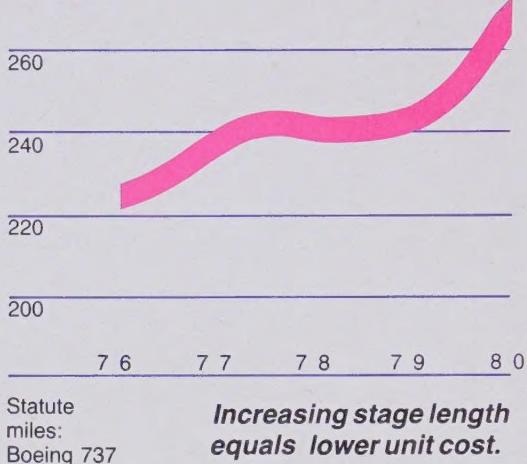
In 1980 we made several major organizational changes in Marketing. The number of Marketing Directors was reduced from seven to four. Heavy emphasis was placed on a restructured sales and service force. The

new Director for this department was recruited from a large American carrier where he was a senior manager. All of our eighteen stations located in six provinces were consolidated into areas; Newfoundland and Labrador, the Maritime Provinces, Quebec and Northern New Brunswick and Ontario. Each of these four areas is headed by an Area Sales and Service Manager.

One of the many pluses of this new restructuring is that it permits greater responsibility and accountability for sales results and customer service down to the local management groups.

W.L. Verrier
Vice President Marketing

Airplane Stage Length



Increasing stage length equals lower unit cost.



Interlining Means Business

At Terminal 1, Toronto International Airport, Bob Petryk, Director Route Development, Pacific Western Airlines, Calgary and Bill Verrier, (right) Eastern Provincial's Vice President Marketing get down to business to make connections easy for Eastern Provincial and Pacific Western passengers.

William L. (Bill) Verrier joined Eastern Provincial in July 1980, coming from a senior overseas post with Air Canada. He brings energy, a vibrant marketing mind and top notch administrative capacity to Eastern Provincial. The Company is fortunate to have him.

**The Drive
For Fuel
Conservation**

The drive in 1980 for both Operations and Maintenance has been better productivity in fuel burn or More Bang for the Fuel Dollar.

During the year, the average price of fuel in scheduled operations rose 24.7% from 77 cents per imperial gallon to 96 cents, while in International Charter service, the price rose from 96 cents to \$1.16.

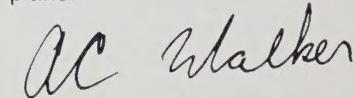
Against this major problem of rising prices. Operations and Maintenance together have effected major reductions in the rate of fuel burn.

Tugs were acquired at Halifax and Gander to reduce taxing of airplanes. More fuel effective flight profiles were researched and implemented. We paid attention to the weight we carry. (When we take 100 lbs. out of the 737 fleet, we save \$15,686 per year.) Maintenance took special pains to make our aircraft skins smoother.

The result has been, from December 1979 to December 1980, a decline in rate of fuel burn of 9.3%. Effective for a full year at today's prices, this is a savings of \$1,459,000.

This gain is due to the cooperation of many people. Ultimately savings like these pass to the airline passenger in the form of less onerous increases in fares. Eastern Provincial congratulates the participants in this major gain.

Our airplanes worked harder in 1980. We improved their daily use to an average throughout the system of 8.98 hours per day for the B737 and to 3.77 hours per day for the HS748. This does not give the full picture. No cost saving is more significant than increasing the utilization of the airplane.



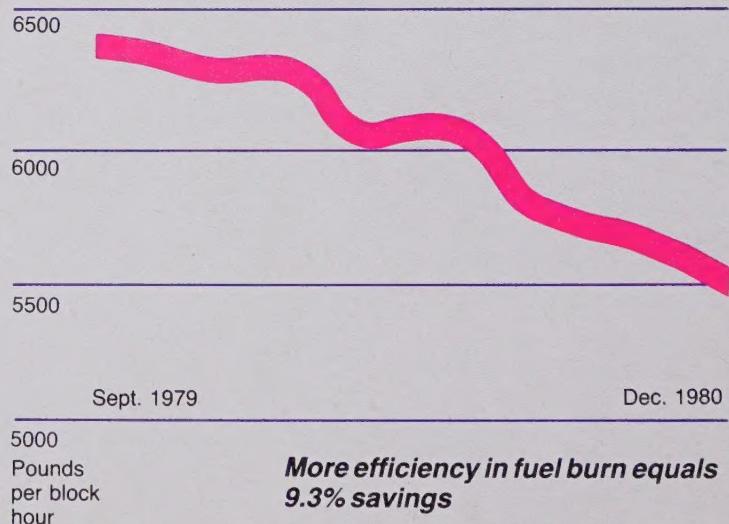
*Captain A.C. Walker
Vice President
Operations and Maintenance*



Captain A. Chester Walker, Vice President Operations and Maintenance has his hand at the throttle and his eye on the fuel gauge of an Eastern Provincial Boeing 737 jetliner.

Captain Walker was born at Milton, Nova Scotia. He has been with the Company successively Pilot, Check Pilot, Director of Flight Operations, Vice President Operations and now leads the whole of the operating division of the Company as Vice President Maintenance and Operations. His 17,000 flying hours in the Captain's seat brings sophisticated and capable management to this significant part of the airline.

Fuel Burn; Boeing 737



A Year of Hard Bargaining

The Company's stress on productivity in 1980 produced protracted, vigorous bargaining with five of the six employee bargaining units. Settlements varied from 25% over two years where employees were asked to accept significant changes in work rules to 21% where lesser changes were requested.

The overall, unweighted settlement was 23.2% over two years. In return, our pilots agreed to more flying per month, our maintenance men agreed to a five day week instead of four days; traffic agents accepted a more flexible arrangement in staffing new stations.

Each of these concessions will contribute to the capability of the airline to grow. They also contribute to job security, a point which should not be overlooked.

Partly because of these changes in work rules, productivity per employee increased. Capacity Ton Miles per employee went up by 16.7% from 64,549 to 75,563.

Revenue Ton Miles per employee went up by 12% to 46,212. While this is far from Air Canada's 83,100 Revenue Ton Miles per employee in 1979, we are getting there. Air Canada's longer stage length and larger equipment give them an edge that is tough to beat.

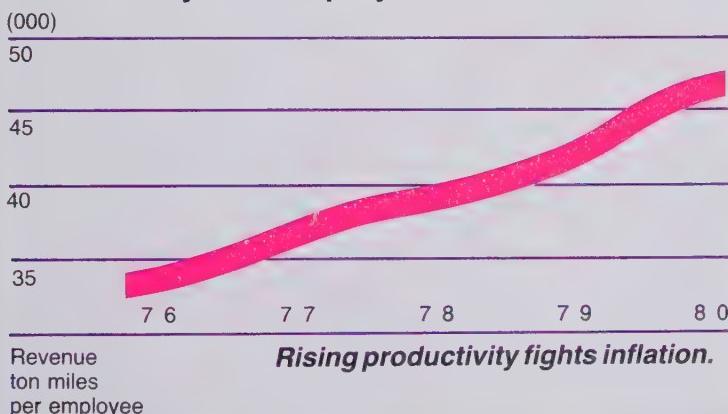
Crew Utilization improved. By December 1980, cockpit crews of the Boeing 737 were flying 49 block hours per month compared to 45 in December of 1979. Pilots in the 748s made greater gains, flying 45 hours per month by December compared to 36 in December of 1979.



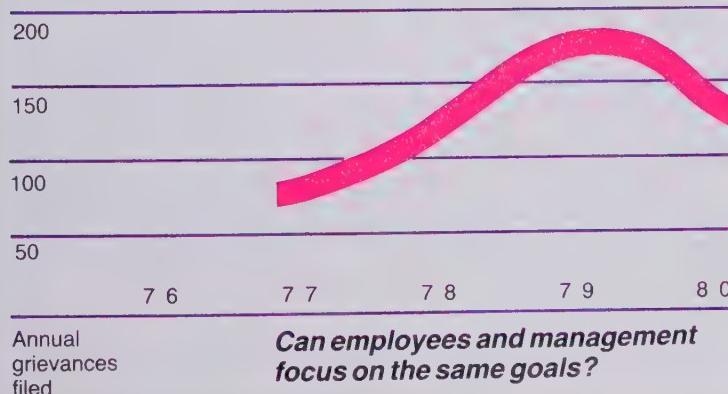
Opponents at the Table, Colleagues in Eastern Provincial's Search For Excellence

Kevin Howlett, Manager, Personnel and Industrial Relations; Sylvia Hancock, member, Negotiating Committee, Clerical and Office Workers; Guy Annable, President, Lodge 1673, International Association of Machinists and Aerospace Workers, sign the two year agreement between office workers and the company.

Productivity Per Employee



Grievances Filed



**Planning Plus
Attention to Detail**



The Company operates two fine hotels, the Atlantic Inn at Dartmouth, Nova Scotia and the Glynmill Inn at Corner Brook, Newfoundland.

Each hotel offers about 90 comfortable rooms to the traveller with full capability for meetings and modest sized conventions. The Glynmill Inn's new modern wing adds the very latest in hotel and meeting accommodations.



"Mac" McBurney, Manager of the Glynmill Inn and Ron Mak, Manager of the Atlantic Inn discuss their new approach to packaged weekend business.

**Flight
Training
Centre**

**Learning Never
Ends at Eastern
Provincial**



At Eastern Provincial, if you work on engines or airframes you return periodically to the manufacturers' plants for training renewal. If you work in accounts or data processing you are expected to take appropriate university courses.

And if you fly for Eastern Provincial, you'll be spending time in the Flight Training Centre in the Company's hangar at Halifax.

Larry Hearn, one of a staff of 17 at the Halifax Training Centre, conducts a classroom session for HS 748 pilots (front row, l to r) Rick Butler, Harry Schafer, Jean LeBlond, Jean Claude Vallee, (back row, l to r) Andre St. Gelais and Gerald Kruschenske.

A mock up of the B 737 cabin helps flight attendants learn emergency procedures and high quality cabin service.

The Boeing 737 flight simulator, the only one in Atlantic Canada – and a body of instructors with excellence on their minds – put new and veteran pilots through their paces on a recurring basis each year.

Ten other airlines from North America and abroad use Eastern Provincial flight training facilities for their pilots.

In 1981, the Company is investing \$1,000,000 to keep the simulator in the forefront of pilot training – worldwide.

**The Search
For Energy
Continues**

In November, 1980 a 66% owned exploratory oil arm of Newfoundland Capital Corporation Limited was formed. It is the objective of this company, Maritime Petroleum Limited to explore for and establish hydro-carbon reserves in areas where petroleum exploration economics are most favourable and ultimately to obtain representation in the offshore plays of Eastern Canada.

To accomplish its goals Maritime Petroleum is participating in two programs with Trinity Resources Inc. of Houston, Texas. It has participated in the acquisition of oil and gas lease interests ranging from 10% to 25% in three prospects totalling 27,000 gross acres located in Michigan, Utah and Texas. Drilling on these leases, by outside firms to earn interests in them, is anticipated within the next year. Further lease acquisitions in the U.S. are planned.

In addition, Maritime Petroleum has agreed to participate to the extent of a 20% working interest in five deep Frio Sand tests scheduled to be drilled in Matagorda and Jackson Counties in Texas over the next year. The total cost of the above program is estimated to be \$2.2 million U.S.

Maritime Petroleum intends to establish its own Operating Management Group and possibly to fund some of its future activities by public financings.



Newfoundland Capital Corporation Limited
Year ended December 31, 1980

with comparative figures for 1979

Consolidated Statement of Income

		1980	1979
		<i>Thousands of dollars</i>	
Revenues	<i>Scheduled operations</i>	\$63,584	51,140
	<i>Government subsidies</i>	1,200	1,700
	<i>Charter and other</i>	8,717	9,821
	Total revenues	73,501	62,661
Expenses	<i>Operating</i>	69,350	58,080
	<i>Depreciation and amortization</i>	1,994	1,955
	Total expenses	71,344	60,035
Income	<i>From operations</i>	2,157	2,626
	<i>Other income</i>	1,020	125
	Total income	3,177	2,751
Interest and debt expense	<i>Long-term debt</i>	1,497	1,650
	<i>Other</i>	133	101
	Total interest and debt expense	1,630	1,751
Income before deferred income taxes and extraordinary item		1,547	1,000
Deferred income taxes		521	484
Net income before extraordinary item		1,026	516
Extraordinary item		-	248
Net income for the year		\$ 1,026	764

Earnings per common share	<i>Income before extraordinary item</i>	\$ 0.38	0.16
	<i>Net income for the year</i>	\$ 0.38	0.16

See accompanying notes to consolidated financial statements

Auditor's Report to the Shareholders

We have examined the consolidated balance sheet of Eastern Provincial Airways Limited as at December 31, 1980 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.
Chartered Accountants
St. John's, Canada
February 6, 1981

Newfoundland Capital Corporation Limited
Year ended December 31, 1980
with comparative figures for 1979

Consolidated Statement of Changes in Financial Position

		1980	1979
		<i>Thousands of dollars</i>	
Funds provided by	<i>Net income for the year before extraordinary item</i>	\$ 1,026	516
	<i>Items not involving funds</i>	3,568	2,554
	Funds provided by operations	4,594	3,070
	<i>Sale of property and equipment</i>	943	67
	<i>Issue of common shares</i>	10,000	—
	<i>Long-term borrowings</i>	5,900	1,100
	<i>Minority interest</i>	168	—
	<i>Investments</i>	104	—
	<i>Other</i>	112	12
	Total funds provided	21,821	4,249
Funds applied to	<i>Share issue cost</i>	250	—
	<i>Property and equipment</i>	2,111	880
	<i>Long-term debt</i>	7,092	2,119
	<i>Dividends</i>	48	515
	<i>Purchase for cancellation of preferred shares</i>	640	175
	Total funds applied	10,141	3,689
Working capital	<i>Increase in working capital</i>	11,680	560
	<i>Working capital as at beginning of year</i>	2,057	1,497
	Working capital as at end of year	\$13,737	2,057

Consolidated Statement of Retained Earnings

		1980	1979
		<i>Thousands of dollars</i>	
Retained earnings as at beginning of year		\$2,626	2,377
Net income for the year		1,026	764
		3,652	3,141
Dividends	<i>Preferred shares: Series A</i>	32	33
	<i>Preferred shares: Series B</i>	16	70
	<i>Common shares</i>	—	412
		48	515
Share issue costs		250	—
Retained earnings as at end of year (Note 5)		\$3,354	2,626

See accompanying notes to consolidated financial statements

Newfoundland Capital Corporation Limited**December 31, 1980**

with comparative figures for 1979

Consolidated Balance Sheet

		1980	1979
ASSETS		<i>Thousands of dollars</i>	
Current Assets	<i>Cash and term deposits</i>	\$ 1,613	684
	<i>Short-term investments, at cost</i>	10,253	350
	(market value \$10,226,000; 1979 \$289,000)		
	<i>Receivables (Note 3)</i>	8,896	6,336
	<i>Materials, supplies and parts, at the lower of cost and replacement cost</i>	2,646	2,367
	<i>Prepaid expenses</i>	262	601
	Total current assets	23,670	10,338
Investments, at cost		632	736
Property and equipment, at cost	<i>Flight equipment</i>	17,738	16,902
	<i>Buildings and ground equipment</i>	16,571	16,245
		34,309	33,147
	<i>Less accumulated depreciation</i>	11,342	9,705
	Net property and equipment	22,967	23,442
Deferred charges, at cost less amortization		276	449
Goodwill, at cost		1,856	1,856
		\$49,401	36,821

		1980	1979
LIABILITIES AND SHAREHOLDERS' EQUITY		<i>Thousands of dollars</i>	
Current liabilities	Accounts payable and accrued liabilities	\$ 5,458	4,863
	Current portion of long-term debt (Note 4)	1,314	1,754
	Deferred revenue	3,161	1,664
	Total current liabilities	9,933	8,281
Long-term debt (Note 4)		14,242	15,743
Provision for overhaul of aircraft engines		3,282	1,524
Deferred income taxes		2,516	1,798
Unamortized portion of government grants toward acquisition of property and equipment (amortized to date \$1,522,000; 1979; \$1,107,000)		3,378	3,793
Minority interest in Maritime Petroleum Limited		168	—
Shareholder's equity (Note 5)	Capital stock	12,372	3,012
	Contributed surplus	156	44
	Retained earnings	3,354	2,626
	Total shareholders' equity	15,882	5,682
Commitments and contingent liabilities (Note 6)		\$49,401	36,821

See accompanying notes to consolidated financial statements

ON BEHALF OF THE BOARD

HRS Steele

Director

S. Schulz

Director

Notes to Consolidated Financial Statements

1. Company Name	During the year, the Company changed its name from Eastern Provincial Airways Limited to Newfoundland Capital Corporation Limited. Newfoundland Capital Corporation Limited is incorporated under the Companies Act of the Province of Newfoundland.																				
2. Summary of Significant Accounting Policies	<p>(a) Basis of consolidation The consolidated financial statements include the accounts of Newfoundland Capital Corporation Limited and its subsidiary companies:</p> <table><tr><td>Eastern Provincial Airways (1963) Limited</td><td>- 100%</td></tr><tr><td>Atlantic Inns Limited</td><td>- 100%</td></tr><tr><td>Maritime Petroleum Limited</td><td>- 66⅔%</td></tr></table> <p>Goodwill represents the excess of cost of investment in shares over the underlying value of the net assets of a subsidiary company at acquisition.</p>			Eastern Provincial Airways (1963) Limited	- 100%	Atlantic Inns Limited	- 100%	Maritime Petroleum Limited	- 66⅔%												
Eastern Provincial Airways (1963) Limited	- 100%																				
Atlantic Inns Limited	- 100%																				
Maritime Petroleum Limited	- 66⅔%																				
	<p>(b) Depreciation Depreciation on property and equipment is provided from the date assets are placed in service at rates which are related to the estimated useful lives of the assets, as follows:</p>																				
	<table><thead><tr><th></th><th><u>Useful Life</u></th><th><u>Residual Value</u></th></tr></thead><tbody><tr><td>Flight equipment</td><td></td><td></td></tr><tr><td> Jet aircraft</td><td>14 years</td><td>15%</td></tr><tr><td> Propeller aircraft</td><td>10 years</td><td>10%</td></tr><tr><td>Buildings</td><td>20 and 40 years</td><td>—</td></tr><tr><td>Ground equipment</td><td>5 years</td><td>—</td></tr></tbody></table>				<u>Useful Life</u>	<u>Residual Value</u>	Flight equipment			Jet aircraft	14 years	15%	Propeller aircraft	10 years	10%	Buildings	20 and 40 years	—	Ground equipment	5 years	—
	<u>Useful Life</u>	<u>Residual Value</u>																			
Flight equipment																					
Jet aircraft	14 years	15%																			
Propeller aircraft	10 years	10%																			
Buildings	20 and 40 years	—																			
Ground equipment	5 years	—																			
	<p>(c) Deferred income taxes Deferred income taxes are provided in recognition of differences between amounts claimed for income tax purposes and amounts recorded in the accounts.</p>																				
	<p>(d) Overhaul provision Provision for major overhauls of owned and leased aircraft engines is made based on aircraft flying time at rates per hour computed in relation to the estimated costs of the overhauls.</p>																				
	<p>(e) Amortization Deferred charges are amortized on a straight-line basis over five years with the exception of deferred financing expenses which are amortized over the terms of the related financing.</p>																				
	<p>(f) Government grants Government grants towards acquisition of property and equipment are recorded as deferred credits and amortized on the same basis as the related asset is depreciated.</p>																				
	<p>(g) Revenue recognition The recognition of revenue is deferred until the related services are rendered. Prepayments of such services as at the year end are included in deferred revenue.</p>																				
	<p>(h) Foreign currencies Current assets and current liabilities are translated into Canadian dollars at exchange rates in effect at the balance sheet date. Property and equipment and long term debt are translated at historical rates of exchange.</p>																				
	<p>(i) Earnings per Common Share Earnings per share information has been computed using the weighted average number of Common Shares outstanding during the year.</p>																				

Newfoundland Capital Corporation Limited
December 31, 1980

Notes to Consolidated Financial Statements

3. Receivables

	1980	1979
	(thousands of dollars)	
Trade	\$7,413	5,148
Government subsidies	825	850
Other	658	338
	<u>\$8,896</u>	<u>6,336</u>

Receivables are assigned as security for bank indebtedness.

4. Long-Term Debt

	1980	1979
	(thousands of dollars)	
	Current Portion	Total
Bank term loans		
Prime plus 1½%, due 1990	\$ 710	5,900
Prime, repaid in 1980	—	—
6% secured loan, due 1985 (US \$2,332,000)	512	2,306
Total bank term loans	1,222	8,206
11% first mortgage loan, due 1997	92	4,000
Reclassification of current liabilities to be financed from long-term borrowings	—	3,350
Federal sales tax assessment payable	—	815
6½% sinking fund debenture due March 1991	—	1,987
Sinking fund investments – at par	—	4,713
	<u>—</u>	<u>—</u>
	<u>\$1,314</u>	<u>15,556</u>
		17,497
Current portion included in current liabilities	1,314	1,754
Long-term debt	<u>\$14,242</u>	<u>15,743</u>

The Company has arranged \$3,350,000 in long-term financing for assets purchased in prior years. As at December 31, 1980 this financing had not been drawn down.

The \$5,900,000 bank term loan and the \$3,350,000 financing arranged above are secured by a floating charge on certain assets of the Company.

Of the \$6,000,000 sinking fund debentures originally issued, \$4,013,000 have been redeemed and were cancelled during the year. Sinking fund investments are held in trust to retire the principal amount of the remaining sinking fund debentures, (\$1,987,000), at maturity.

Maturities on long-term debt for the five years ending December 31, 1981 through 1985 amount to \$1,300,000 annually. Maturities on the \$3,350,000 of the undrawn debt are not included in the foregoing.

Notes to Consolidated Financial Statements

5. Shareholders' Equity

	<u>Authorized Shares</u> (thousands)	<u>1980</u> (thousands of dollars)	<u>1979</u>
Preferred shares - cumulative, redeemable, of \$15 par value each.			
Issued - 34,470 6% Series A	67	\$ 518	546
- Nil 10¾% Series B	68	-	612
Deferred shares of \$100 par value each.			
Issued - 24,964 eliminated on consolidation	47	-	-
Common shares of no par value.			
Issued - 2,520,135 Class A	10,000	10,927	927
- 1,270,135 Class B	3,000	<u>927</u>	<u>927</u>
		\$ 12,372	3,012

During the year, the Company reorganized its capital structure whereby each Common Share was converted into one Class A Common Share and one Class B Common Share, and the authorized capital of the Company was increased by creating an additional 7,000,000 Class A Common Shares. The Class A Common Shares carry one vote per share and the Class B Common Shares carry ten votes per share. In all other respects, these shares rank pari passu.

Pursuant to the issuance of 1,250,000 Class A Common Shares in December 1980, the Company issued warrants, expiring 1982, to purchase 416,666 Class A Common Shares at \$9.00 per share. In addition, warrants were issued to purchase 75,000 shares in consideration of issue costs of \$100,000, which is recorded in contributed surplus.

In accordance with Section 49 of The Companies' Act, Newfoundland, as a result of the redemption of preferred shares, retained earnings, totaling \$1,112,500 (1979 - \$484,300) has been appropriated as a "capital redemption reserve fund" which is restricted as to distribution.

6. Commitments and Contingent Liabilities

Aircraft leases

As at December 31, 1980, the Company had the following aircraft lease commitments:

	<u>Basic Annual Rental</u>	<u>Option Date</u>	<u>Lease Purchase Option</u>
3 Boeing 737's	\$1,702,000	Dec., 1984	Fair Market Value
1 Boeing 737	826,000	June, 1985	\$1,200,000
1 Boeing 737	781,000	March, 1988	1,260,000
1 Hawker Siddeley HS-748	183,000	Dec., 1985	264,000
1 Hawker Siddeley HS-748	174,000	Dec., 1981	450,000
	\$3,666,000		

Of the total basic annual rental \$2,621,000 is payable in US dollars.

The Canadian Institute of Chartered Accountants has issued Recommendations with respect to accounting for capital lease transactions. These Recommendations are applicable to all lease transactions entered into during financial years commencing on or after January 1, 1979. Had the Company applied the Recommendations on a retroactive basis to those capital aircraft leases in existence as at December 31, 1980 that have been accounted for as operating leases, the effect on the financial statements would have been as follows:

Notes to Consolidated Financial Statements

	1980 (thousands of dollars)	1979
(a) Assets would increase with the addition of flight equipment under capital leases, at cost less accumulated depreciation	\$15,972	17,889
(b) Obligations under capital leases would increase by (including obligations payable of US \$7,447,000)	\$16,495	18,695
(c) Increase in net income for the year	\$ 256	173

Pursuant to certain of these lease agreements the Company has pledged investments as security in the amount of \$475,000 (1979 - \$575,000).

7. Other	The aggregate direct remuneration paid by the Company to its directors and senior officers for the year ended December 31, 1980 was \$865,000 (1979 - \$639,000).
8. Comparative Figures	Certain of the 1979 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1980.

The Day Begins

By First Officer Lidstone. Eastern Provincial

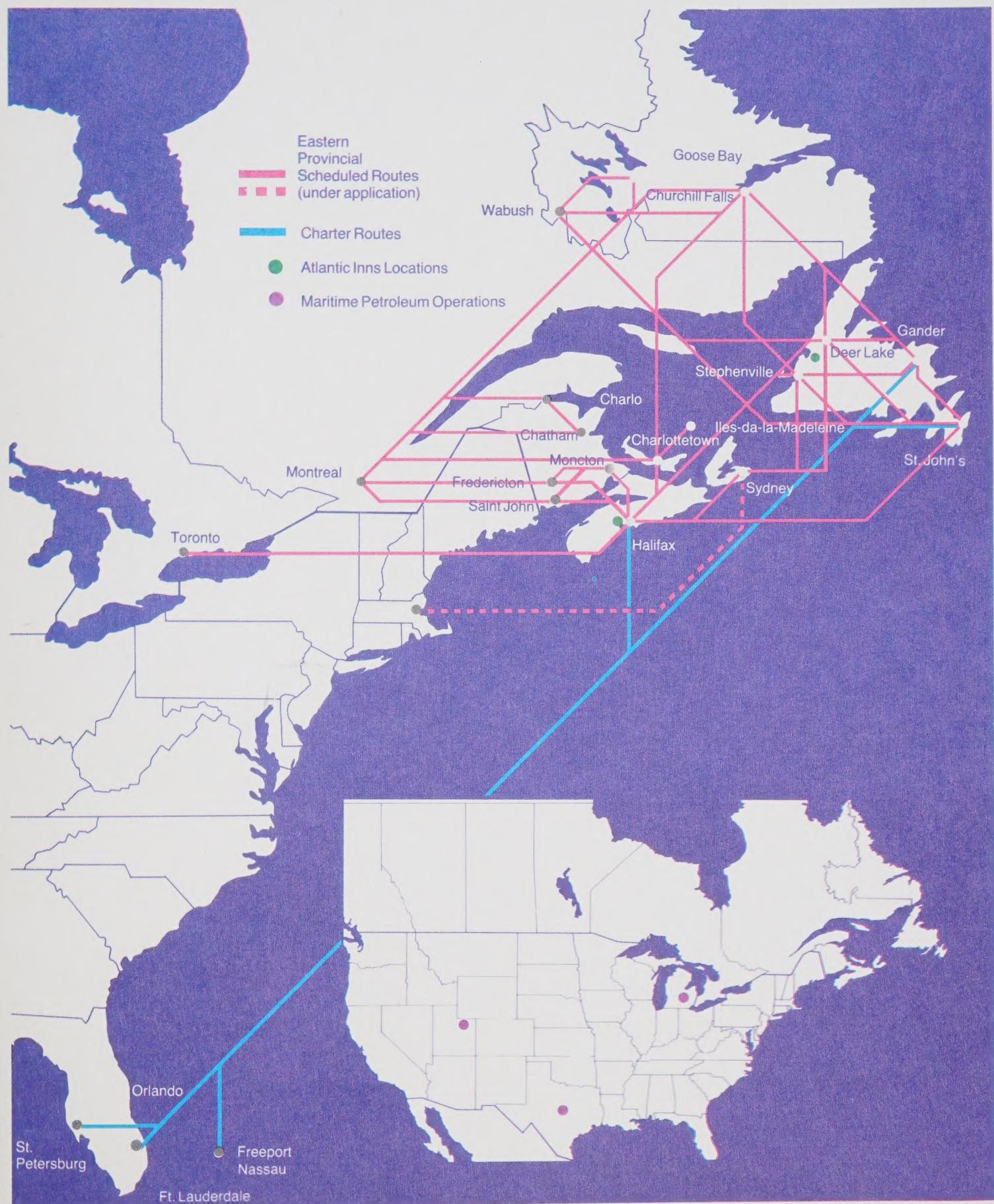


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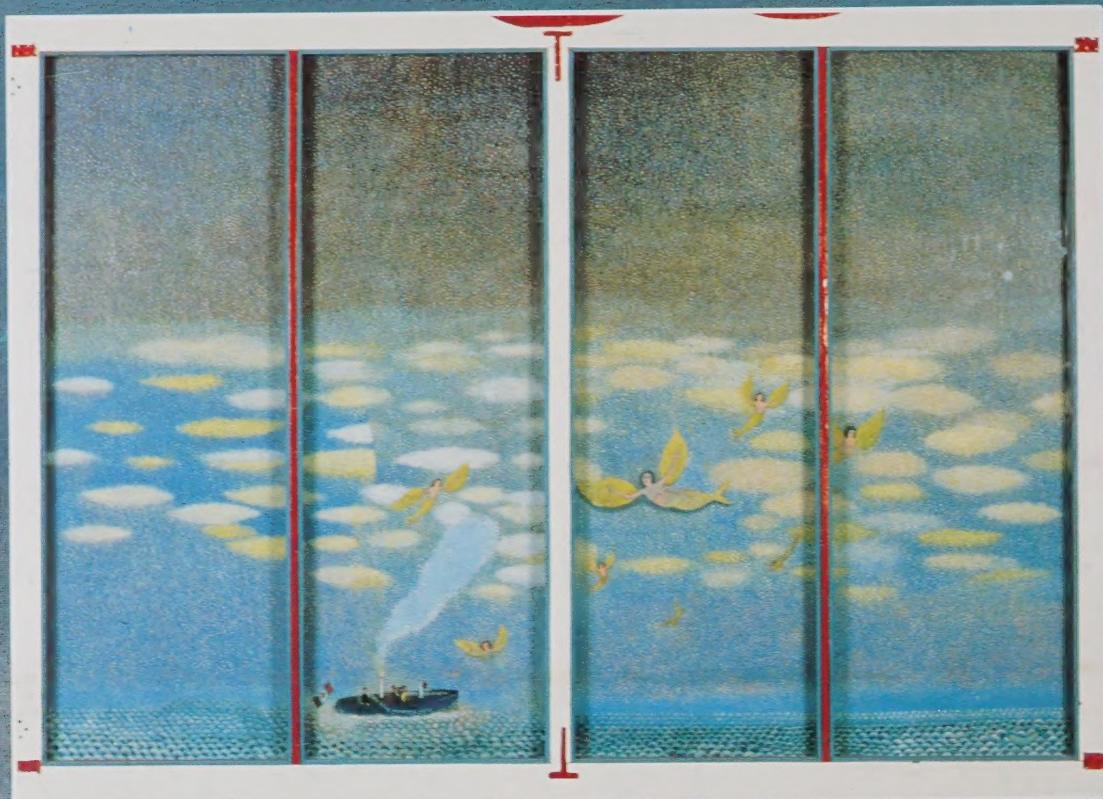
EASTERN PROVINCIAL AIRWAYS

Five Year Comparative Review

	<u>1980</u>	<u>1979</u>	<u>1978</u>	<u>1977</u>	<u>1976</u>
Financial (\$000's)					
Revenues:					
Passenger	55,628	44,074	38,929	32,602	26,311
Cargo	7,956	7,066	6,097	4,860	4,587
Government Subsidies	1,200	1,700	1,700	1,700	1,700
Charter & Other	<u>8,717</u>	<u>9,821</u>	<u>9,808</u>	<u>7,199</u>	<u>6,053</u>
Total	<u>73,501</u>	<u>62,661</u>	<u>56,534</u>	<u>46,361</u>	<u>38,651</u>
Expenses:					
Operations	69,350	58,080	50,786	44,642	39,043
Depreciation & Amortization	<u>1,994</u>	<u>1,955</u>	<u>2,278</u>	<u>2,049</u>	<u>1,772</u>
Total	<u>71,344</u>	<u>60,035</u>	<u>53,064</u>	<u>46,691</u>	<u>40,815</u>
Income from Operations	2,157	2,626	3,470	(330)	(2,164)
Other Income	1,020	125	3,594	82	1,501
Interest Expense	1,630	1,751	2,271	1,925	1,646
Deferred Income Taxes	521	484	1,919	(958)	(1,226)
Extraordinary Item	—	248	—	—	—
Net Income	<u>1,026</u>	<u>764</u>	<u>2,874</u>	<u>(1,215)</u>	<u>(1,083)</u>
Earnings per Common Share	<u>0.38¢</u>	<u>0.26¢</u>	<u>1.13¢</u>	<u>(0.56¢)</u>	<u>(0.52¢)</u>
Funds Provided by Operations	4,594	3,070	3,823	(508)	(1,360)
Working Capital	13,737	2,057	1,497	(656)	(683)
Total Assets	49,401	36,821	39,038	39,920	37,405
Long Term Debt	14,242	15,743	15,947	20,883	16,591
Shareholders' Equity	15,882	5,682	6,262	4,862	6,179
Operating Statistics:					
Passengers Carried	878,000	840,000	780,000	669,000	593,000
Passenger Miles (000)	363,000	314,000	293,000	257,000	225,000
Available Seat Miles (000)	654,000	554,000	524,792	487,481	499,462
Passenger Load Factor	55.5%	56.7%	55.9%	52.7%	45.0%
Yield per Passenger Mile	15.3¢	14.0¢	13.3¢	12.7¢	11.6¢
Revenue Ton Miles (000)	41,175	36,740	34,194	29,580	26,340
Capacity Ton Miles (000)	67,327	57,707	56,346	53,198	50,836
Revenue Weight Load Factor	61.2%	63.7%	60.7%	55.6%	51.8%
Aircraft Utilization per Day	7.2	6.8	6.9	6.7	6.3
Employees at Year End	891	894	886	830	787



Angels Over Newfoundland



Speaking Of Our Culture

With the Federal Cultural Policy Review Committee in the process of looking at every aspect of Culture in Canada, we thought it appropriate to add a sprinkling of culture to our annual report.

The painting on the back cover, "Angels over Newfoundland" by Alex Wyse was part of "Pluralities/80" an exhibition at the National Gallery of Canada, Ottawa in 1980. It is now in a private Gander collection.

We also asked each of our directors for a photograph to be taken in front of his favourite painting. (page 2)

H. Steele
No Game, by William A. Moore

S. Schulich
East Texas Drill Site, by D. Keith

W. Sobey

Birches, by A.Y. Jackson

J. Fleming

Long Tek Afoot, by William A. Moore

I. Kilpatrick

Sea Stallion, by Yvan